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Potential Reductions to Selected Procurement Budgets

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The Honorable John C. Stennis
Chairman, Committee on Appropriations
United States Senate

The Honorable Bill Chappell, Jr.
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

This report responds to your requests that we review the Army's justification for its fiscal year 1989 budget estimates for selected budget lines in its Procurement of Weapons and Tracked Combat Vehicles and Other Procurement appropriations to identify potential budget reductions. We also reviewed the budgets for fiscal years 1987 and 1988 for those appropriations to identify funding not yet used that could potentially be reduced. The results of our review are summarized below and discussed in more detail in appendixes I and II.

We identified potential reductions of $373.4 million in the Weapons and Tracked Combat Vehicles appropriation—$161.8 million for fiscal year 1989, $131.5 million for fiscal year 1988, and $80.1 million for fiscal year 1987. We also identified potential reductions of $82.3 million in the Other Procurement appropriation—$81.2 million for fiscal year 1989 and $1.1 million for fiscal year 1988. We arrived at these amounts primarily by updating the Army's estimates using more current information.

As requested, we did not obtain official agency comments on this report. However, we discussed the contents of this report with Office of the Secretary of Defense and Army officials and have incorporated their comments, where appropriate. Our objectives, scope, and methodology are described in appendix III.

As arranged with your offices, we are sending copies of this report to various congressional committees, the Secretaries of Defense and the

Army, and the Director of the Office of Management and Budget. Copies will be made available to others upon request.

Frank C. Conahan
Assistant Comptroller General

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Abbreviations

OPA	Other Procurement, Army
TACOM	Tank-Automotive Command
WTCV	Weapons and Tracked Combat Vehicles

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Potential Reductions to the Procurement of Weapons and Tracked Combat Vehicles, Army, Appropriation

In its fiscal year 1989 amended budget, the Army requested $1,366.7 million for 545 M1A1 tanks, $714.1 million for 581 Bradley Fighting Vehicles, $9.9 million for M60 tank modifications, and $107.9 million for 80 M88 series recovery vehicles. These four budget line items, for which we reviewed the major cost elements, account for about 74 percent of the $2,960.6 million Weapons and Tracked Combat Vehicles (WTCV) procurement appropriation. We also reviewed the WTCV budgets for these four budget line items in fiscal years 1987 and 1988 to identify funds not yet used that could be potentially reduced.

As shown in table I.1, we identified potential budget reductions of $80.1 million for fiscal year 1987, $131.5 million for fiscal year 1988, and $161.8 million for fiscal year 1989. Generally, our calculations of potential reductions were based on events that occurred and information that became available after the Army had prepared its budget estimates.

Table I.1: Potential Reductions to Budgets for Selected Budget Line Items in the Weapons and Tracked Combat Vehicles Procurement Appropriation

Dollars in millions

	Fiscal year			
Budget line	**1987**	**1988**	**1989**	**Total**
Bradley				
Fire Control	$0	$6.5	$5.8	**$12.3**
Transmission	0	0.6	0.7	**1.3**
Peculiar Support Equipment	0	(0.1)	1.3	**1.2**
Total	**0**	**7.0**	**7.8**	**14.8**
Recovery Vehicle, M88 Series	0	0	22.3	**22.3**
M1A1 Tank				
Basic Vehicle	21.9	24.3	26.5	**72.7**
Track and Roadwheels	11.1	19.6	12.4	**43.1**
Fire Control	0.5	0.5	1.3	**2.3**
Total	**33.5**	**44.4**	**40.2**	**118.1**
Tank, Combat, 105mm Gun M60 Series (MOD)	46.6	80.1	9.9	**136.6**
Spares and Repair Parts	0	0	81.6	**81.6**
Total potential reductions	**$80.1**	**$131.5**	**$161.8**	**$373.4**

These potential reductions are explained in greater detail below by budget line category and fiscal year.

Bradley Fire Control

The Bradley fire control system is made up of components procured from three different contractors. The Army based its fiscal year 1989

budget estimate of $145.4 million for the fire control system on fiscal year 1987 contract prices for components to be procured from one contractor and on fiscal year 1988 contract prices for components to be procured from two other contractors. These were the most current prices available when the budget was prepared. All three fiscal year 1988 contracts have now been awarded for the fire control system components. We recomputed the estimate based on the fiscal year 1988 contract prices and identified a potential reduction of $5.8 million to the fiscal year 1989 budget estimate. In addition, there is potential to reduce the fiscal year 1988 budget by $6.5 million based on the actual fiscal year 1988 contract prices. Program officials agreed with our calculations.

Bradley Transmission

The fiscal year 1989 budget estimate of $48.8 million for Bradley transmissions was based on the fiscal year 1987 contract. The fiscal year 1988 contract was signed in February 1988, and the price was lower than estimated. Based on the fiscal year 1988 contract price, we estimate that there is potential to reduce the fiscal year 1989 budget by $0.7 million. Because of the lower-than-expected fiscal year 1988 contract price, there is also potential to reduce the fiscal year 1988 budget by $0.6 million. Program officials agreed that it was realistic to base the budget estimates on the more recent contract price.

Bradley Peculiar Support Equipment

Bradley peculiar support equipment consists of five broad categories of support equipment, such as test equipment, containing 46 different cost elements. The Army's fiscal year 1989 budget estimate of $36.4 million for Bradley peculiar support equipment was based on the most current contract prices from prior years inflated to reflect current-year dollars, procurement request orders, and the Army's master data file on prices. The Army has revised some prices since the budget estimate was prepared based on more current contracts and revised inflation indexes. We recalculated the fiscal year 1989 estimate using the Army's more current contract information and inflation indexes and identified a potential reduction of $1.3 million to the fiscal year 1989 budget estimate. However, due to some price increases, there is a potential shortfall of $0.1 million in the budget estimate for fiscal year 1988, requiring a budget increase. Program officials agreed that the budgets should be based on the more current price information.

M88 Series Recovery Vehicle

The Congress provided $24.1 million in fiscal year 1988 for procurement of long-lead items for a new recovery vehicle. The Army requested $106.1 million in its fiscal year 1989 budget for the M88 series recovery vehicle—$83.8 million for initial procurement of 80 M88 Recovery Vehicles and $22.3 million in advance procurement funding for the fiscal year 1990 program. However, the program has been delayed due to its restructuring to accommodate comparative testing of two candidate vehicles, the improved M88A1 and the Abrams Recovery Vehicle. The House Committee on Armed Services directed this testing in its report on the National Defense Authorization Act for fiscal year 1988/1989 (House Report Number 100-58).

The Army plans to select the most cost-effective vehicle for production by the end of August 1988 and does not plan to obligate the $24.1 million in fiscal year 1988 advance procurement funds for the fiscal year 1989 program before September 1988. Consequently, according to program officials, the budget estimates for fiscal years 1989 and 1990 will be reassessed at the end of August 1988, based on the vehicle selected, to determine whether funding adjustments are needed.

Because the Army has not decided which vehicle it will procure and it does not plan to obligate the fiscal year 1988 advance procurement funding before September 1988, the last month of the fiscal year, the fiscal year 1988 program in effect becomes the fiscal year 1989 program. Therefore, we believe that, at a minimum, there is potential to defer the $22.3 million in fiscal year 1989 advance procurement funds requested for the fiscal year 1990 program. Program officials agreed that the advance procurement funds for the fiscal year 1990 program might not be needed because of the delays in the program. We also believe that if the fiscal year 1988 program is delayed beyond September, there may also be potential to defer the $83.8 million fiscal year 1989 request to procure 80 M88 recovery vehicles. Program officials agreed that the level of funding needed for the fiscal year 1989 program is uncertain because a vehicle has not been selected.

M1A1 Tank Basic Vehicle

The Army's fiscal year 1989 budget request of $738.9 million for the M1A1 Tank Basic Vehicle was based on prices in the current multiyear contract. When we asked program officials to provide us with detailed cost data to support the estimate, current contract prices did not support $26.5 million of the request. Therefore, we believe that the

$26.5 million should be considered for potential reduction. Program officials said that this amount should be kept as a reserve for possible increases in contract prices for six cost categories.

In addition, we identified $21.9 million in the fiscal year 1987 budget and $24.3 million in the fiscal year 1988 budget that are being held as reserves for contingencies. For the reasons discussed above, we also believe that these reserves should be considered potential budget reductions. However, program officials told us that they believe the funds should be kept in reserve.

M1A1 Tank Track and Roadwheels

The fiscal year 1989 budget request of $32.4 million for M1A1 Tank Track and Roadwheels was based on the higher-priced proposal of the two proposals received. However, in February 1988, the Army awarded a multiyear contract (for 1987-91) to the lower-priced contractor. A revised estimate, based on prices in that contract, results in a decrease in track costs and an increase in roadwheel costs, for a net potential reduction of $12.4 million in fiscal year 1989.

In addition, based on the fiscal year 1987 and 1988 prices in the February 1988 multiyear contract, we estimate potential reductions of $11.1 million for fiscal year 1987 and $19.6 million for fiscal year 1988.

Program officials agreed that it was realistic to base the budgets on the recent contract price. However, they said that costs might increase due to a bid protest that has been filed by the losing contractor. The officials told us that if the costs do not increase, they plan to use the funds for unfunded requirements in the M1A1 tank program such as training equipment that was excluded due to budget constraints.

M1A1 Tank Fire Control

The Army requested $90.5 million in fiscal year 1989 for the M1A1 Tank Fire Control. The request was based on the most current multiyear contract prices. However, since preparing the budget, the Army has reduced the fiscal year 1988 contract prices for some components. Using these revised prices, we identified a potential to reduce the fiscal year 1989 budget by $1.3 million. Program officials agreed that it was realistic to base the fiscal year 1989 budget on the most recent contract prices.

In addition, the revised prices resulted in $0.5 million in potential reductions in each of the budgets for fiscal years 1987 and 1988. Program officials agreed with our calculations.

M60 Tank Modifications

The Army requested $9.9 million in fiscal year 1989 for modifications to the M60 tank; however, the Army has decided not to proceed with the modification program. The product manager told us that $22.6 million in fiscal year 1986 funds had been obligated for an applique armor modification that was subsequently terminated. The Army reprogrammed $47.3 million of the remaining fiscal year 1986 funds out of the program. A total of $46.6 million is included in the fiscal year 1987 budget, and $80.1 million is included in the fiscal year 1988 budget for the remaining modifications. Since the program has been terminated, we believe that there is potential for total budget reductions of $136.6 million—$9.9 million for fiscal year 1989, $46.6 million for fiscal year 1987, and $80.1 million for fiscal year 1988. Program officials agreed with our analysis.

Spares and Repair Parts

In its fiscal year 1989 budget request, the Army requested $258.2 million for spares and repair parts to be purchased by the Tank-Automotive Command (TACOM) for tracked combat vehicles. Revised Army estimates of requirements indicate a potential reduction of $81.6 million for fiscal year 1989. The reduction is primarily due to the fact that fiscal year 1989 requirements for some items were bought in fiscal year 1988 and projected demand for other items has decreased. TACOM officials agreed with our analysis but said that they plan to use the $81.6 million to buy unfunded war reserve spares.

Potential Reductions to the Other Procurement, Army, Appropriation

In its $4.8 billion fiscal year 1989 amended budget request for the Other Procurement, Army (OPA) appropriation, the Army requested $239.3 million for 1,523 10-ton trucks, $46.5 million for 153 Heavy Equipment Transporters, and $84.7 million for spares and repair parts for tactical and support vehicles and other support equipment. We reviewed the fiscal year 1989 cost estimates for those three budget lines and also reviewed the budgets for fiscal years 1987 and 1988 to identify unused funds that could potentially be reduced.

As shown in table II.1, we identified potential reductions of $81.2 million in the fiscal year 1989 budget request and $1.1 million in the fiscal year 1988 budget. Generally, our calculations of the potential reductions were based on events that occurred and information that became available after the Army had prepared its budget.

Table II.1: Potential Reductions to Budgets for Selected Budget Line Items in the Other Procurement, Army, Appropriation

Dollars in millions

	Fiscal year		
Budget line	**1988**	**1989**	**Total**
10-Ton Truck	$1.1	$1.6	**$2.7**
Heavy Equipment Transporter	0	60.1	**60.1**
Spares and Repair Parts	0	19.5	**19.5**
Total potential reductions	**$1.1**	**$81.2**	**$82.3**

These potential reductions are explained in greater detail below by budget line category and fiscal year.

10-Ton Truck

The Army requested $239.3 million to procure 1,523 10-ton trucks in its fiscal year 1989 budget request. Due to a mathematical error in the calculation, the fiscal year 1989 budget estimate is overstated by $1.6 million. In addition, based on more current contract cost information, we estimate a potential reduction of $1.1 million in the fiscal year 1988 budget. Program officials agreed that they had made a mathematical error and that it was more realistic to base the budgets on the more recent contract prices but stated that they would like to use the extra funds to buy more trucks.

Heavy Equipment Transporter System

In its fiscal year 1989 budget request, the Army requested $60.1 million for the Heavy Equipment Transporter—$46.5 million in the Heavy Equipment Transporter budget line and $13.6 million in the Host Nation

Support budget line. Procurement of the transporter has been delayed because of technical difficulties in identifying a trailer capable of meeting the Army's requirements and disagreements within the Army about the acquisition strategy. As a result, $10.4 million in fiscal year 1986 funds and $37.1 million in fiscal year 1987 funds are not yet on contract. The Army believes that it has resolved the technical problems and expects to award a multiyear contract in either August or September 1988. Due to the delay in the prior year programs, the $60.1 million requested for fiscal year 1989 will probably not be needed until fiscal year 1990 or later. The program manager agreed that the prior year funds would probably be adequate and that the requested funds could be deferred until fiscal year 1990.

Spares and Repair Parts

The Army's Other Procurement budget request for fiscal year 1989 included $84.7 million for spares and repair parts to be purchased by TACOM—$75.7 million to procure spares and repair parts for tactical and support vehicles and $9.0 million to procure spares and repair parts for other support equipment. Since preparing the budget, the Army has revised its estimates of spares and repair parts requirements. Using these revised estimates, we identified a potential reduction of $19.5 million for fiscal year 1989. The potential reduction is due primarily to the fact that fiscal year 1989 requirements for some items were bought in fiscal year 1988 and projected demands for others have decreased. TACOM officials agreed with our analysis but said that they plan to use the $19.5 million to buy unfunded war reserve spares.

Objectives, Scope, and Methodology

Our objectives were to evaluate the Army's amended fiscal year 1989 budget requests for the Procurement of Weapons and Tracked Combat Vehicles, Army, and the Other Procurement, Army, appropriations and to identify potential adjustments. We also reviewed these budgets for fiscal years 1987 and 1988 to identify funding not yet used that could potentially be reduced. We determined the basis for the Army's estimates of its funding requirements, and we identified changes that occurred after the estimates were made. We then used the more current information to update the Army's budget estimates.

We focused our review on the budget lines (listed in app. I and II) that are for the procurement of items managed at TACOM. These budget lines account for about 74 percent of the Army's amended fiscal year 1989 budget request for the Weapons and Tracked Combat Vehicles, Army, appropriation and about 8 percent of the budget request for the Other Procurement, Army, appropriation.

We conducted our review at Headquarters, Department of the Army, Washington, D.C., and TACOM, Warren, Michigan. We interviewed Army officials and reviewed and analyzed various budget documents, contract information, cost estimates, and other documents relevant to the Army's budget request.

We performed our review from January to June 1988 in accordance with generally accepted government auditing standards.

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